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**State Auditor Vaudt Reviews Fiscal Year 2008 General Fund Budget**

(Des Moines, Iowa) – Last week, Governor Culver signed the final appropriation bills for Fiscal Year 2008. State Auditor Dave Vaudt has completed his analysis of the final approved budget. Some of Auditor Vaudt's findings about Iowa's financial plan for Fiscal Year 2008 are as follows:

**Fiscal Year 2007 Supplemental Appropriation**

Appropriations of \$71 million were made for additional spending under the Fiscal Year 2007 budget. "It's important to realize, however, only \$18½ million, or 25%, of that amount reverts if not spent in Fiscal Year 2007," emphasized Auditor Vaudt. The remaining \$52½ million, or 75%, of the supplemental appropriations do not revert at the end of Fiscal Year 2007. They carry forward and create additional spending authority in Fiscal Year 2008, which is contrary to the 99% expenditure limitation contained in Iowa law. Shifting budgeted expenditures from one fiscal year to another is not a good budgeting practice and only adds to the lack of clarity in Iowa's budgeting process, especially as to Iowa's true spending increases from year to year. "While it's not the first time this technique has been proposed or used, I'm disappointed at the magnitude of the Fiscal Year 2007 supplemental appropriations that do not revert," he added.

**What's Really Happening**

As Auditor Vaudt has frequently stressed, "The key to responsible budgeting is to bring expenditures in line with revenues." He noted total spending in the Fiscal Year 2008 budget exceeds total anticipated revenues by over \$300 million, despite the projected \$130 million of additional revenue from raising the cigarette and tobacco tax. "The increased spending of more than \$550 million, or approximately 10%, in Fiscal Year 2008 compared to Fiscal Year 2007, substantially exceeds Iowa's most recent historical three-year average revenue growth of \$336 million. Even when the additional cigarette and tobacco tax revenues are included, spending growth significantly outpaces the anticipated revenue increase," he concluded. "I'm looking for progress—for some steps in the right direction. Unfortunately, with this Fiscal Year 2008 budget, that progress is not taking place."

Continued . . .

## Looking Ahead to Fiscal Year 2009

“If Iowa followed the good budgeting practice of funding all its General Fund costs out of only General Fund revenues, a \$764 million, or 12.7%, revenue increase would be necessary in Fiscal Year 2009 to cover the increased cost commitments and bring costs paid from non-General Fund resources back into the General Fund,” warned Auditor Vaudt. “That’s before we even consider all the other cost increases, such as Medicaid, health insurance, fuel and utilities, the State will face in Fiscal Year 2009,” he added. “Just imagine if Iowa encounters any type of fiscal downturn. Now imagine the challenges and the drastic steps we would need to take to align expenditures with reduced revenue growth, or worse yet, reduced revenues.” Auditor Vaudt cautioned our ‘rainy day fund’ would only serve as a short-term solution to a potentially long-term problem. Longer-term planning and a longer-term mindset are critical to Iowa’s sound financial future.

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**Auditor of State  
David A. Vaudt**

**Comments on  
Fiscal Year 2008  
General Fund Budget**

**June 6, 2007**

**Press Briefing**

# State of Iowa FY08 General Fund Budget

Remarks today will focus on these areas:

- FY07 supplemental appropriations
- Comparison of the FY08 budget:
  - As presented
  - As adjusted for all resources
- Concerns:
  - FY08 spending increase
  - Lack of overall improvement
  - FY09 outlook

**State of Iowa**  
**FY08 General Fund Budget**  
**FY07 Supplemental Appropriations**  
(\$ in Millions)

Appropriations that revert in FY07:

Medicaid	\$ 11.0	
Corrections	5.3	
Disaster Grants	1.0	
Other	<u>1.0</u>	18.3

Appropriations that carryover to FY08:

Iowa Power Fund	24.7	
Human Services	11.4	
Education	4.7	
Veterans Affairs	4.0	
Targeted Small Businesses	4.0	
Other	<u>3.6</u>	<u>52.4</u>
Total		<u><u>70.7</u></u>

**State of Iowa  
FY08 General Fund Budget  
As Presented  
(\$ in Millions)**

	<u>Governor's Proposal</u>	<u>Final Budget</u>
Revenues	\$ 5,930.8	\$ 5,925.3
Expenditures	<u>5,754.4</u>	<u>5,856.3</u>
Budgeted surplus	<u>\$ 176.4</u>	<u>\$ 69.0</u>
Surplus as a % of revenues	<u>3.0%</u>	<u>1.2%</u>

# State of Iowa

## FY08 General Fund Budget

### As Adjusted for All Resources

(\$ in Millions)

	<u>Governor's Proposal</u>	<u>Final Budget</u>
Total revenues	\$6,016.3	\$ 5,989.8
"True total expenditures"	<u>6,286.2</u>	<u>6,291.0</u>
Gap - spending in excess of revenues (1)	<u>\$ (269.9)</u>	<u>\$ (301.2)</u>
Spending gap as % of total revenues	<u>(4.5%)</u>	<u>(5.0%)</u>

(1) Does not consider 99% expenditure limitation

# State of Iowa

## FY08 General Fund Budget

### Revenues Reconciliation

(\$ in Millions)

	<u>Governor's Proposal</u>	<u>Final Budget</u>
As presented	\$ 5,930.8	\$5,925.3
Revenue adjustments:		
IowaCare Account	67.5	67.5
Judicial fees	18.0	- (A)
Underground Storage		
Tank Fund transfer	-	(3.0)
Total revenues	<u>\$ 6,016.3</u>	<u>\$ 5,989.8</u>

(A) Included in the "as presented" line



**State of Iowa**  
**FY08 General Fund Budget**  
**Expenditures Reconciliation**  
(\$ in Millions)

	<u>Governor's Proposal</u>	<u>Final Budget</u>
As presented	\$5,754.4	5,856.3
Additional expenditures:		
Non-General Fund resources	408.8	422.1
Under-funded costs	<u>123.0</u>	<u>12.6</u>
"True total expenditures"	<u><u>\$6,286.2</u></u>	<u><u>6,291.0</u></u>

**State of Iowa  
FY08 General Fund Budget  
Additional Expenditures  
(\$ in Millions)**

	<u>Governor's Proposal</u>	<u>Final Budget</u>
<u>Expenditures shifted to Non-General Fund resources:</u>		
Property Tax Credits	\$ 119.9	\$ 131.9
FY07 Supplemental Carryforwards	25.0	52.4
IowaCare Account	66.2	66.2
Tobacco Related Funds	58.2	58.2
Senior Living Trust Fund	74.1	74.1
Rebuild Iowa Infrastructure Fund	37.5	29.8
Environment First Fund	9.9	9.5
Judicial Fees	<u>18.0</u>	<u>-</u>
Total	<u>\$ 408.8</u>	<u>\$ 422.1</u>

# State of Iowa FY08 General Fund Budget Additional Expenditures, Continued (\$ in Millions)

	<u>Governor's Proposal</u>	<u>Final Budget</u>
<u>Under-funded costs:</u>		
Salary adjustment	\$ 107.2	\$ -
<u>Likely supplemental:</u>		
Medicaid (A)	11.2	8.0
State Appeal Board	<u>4.6</u>	<u>4.6</u>
 Total	 <u>\$ 123.0</u>	 <u>\$ 12.6</u>

(A) Based upon April 2007 estimated costs

# State of Iowa FY08 General Fund Budget Comparative Increases (\$ in Millions)

## Expenditures:

FY08 final budget	\$ 6,291.0
FY07 estimate	<u>5,712.5</u>
Spending increase	<u><u>\$ 578.5</u></u>

## Revenue increases:

FY07 estimate	<u>\$ 300.7</u>
FY06 actual	<u>\$ 460.7</u>
FY05 actual	<u><u>\$ 245.5</u></u>
Average increase	<u><u>\$ 335.6</u></u>

FY08 spending increase is 72% greater than the three-year average revenue increase

# State of Iowa

## FY08 General Fund Budget

### Final Budget Comparisons (A)

(\$ in Millions)

<u>As adjusted for all resources:</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>
Revenues	\$ 4,997	5,428	5,990
Expenditures	<u>5,336</u>	<u>5,731</u>	<u>6,291</u>
Spending Gap (B)	<u>\$ (339)</u>	<u>(303)</u>	<u>(301)</u>
Revenue increases	<u>\$ 431</u>	<u>562</u>	

(A) Before supplemental appropriations

(B) Does not consider 99% expenditure limitation

**State of Iowa**  
**FY08 General Fund Budget**  
**Looking Ahead to FY09**  
(\$ in Millions)

Revenue growth needed:

K-12 allowable growth	\$ 113.0
Salary adjustment	100.6
Teacher Quality/Student Achievement	75.0
Iowa Power Fund	25.0
Preschool	<u>15.3</u>
	328.9
FY08 shifted expenditures	422.1
FY08 under-funded costs	<u>12.6</u>
Total	<u>\$763.6</u>

# State of Iowa

## FY08 General Fund Budget

### Looking Ahead to FY09, Continued

(\$ in Millions)

FY08 revenues			<u>\$ 5,989.8</u>
3-Year average revenue growth			<u>\$ 335.6</u>
FY09 additional General Fund costs	<u>\$328.9</u>	—	<u>\$763.6</u>
Revenue growth needed - as a % of FY08 revenues	<u>5.5%</u>	—	<u>12.7%</u>